

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
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P 232133Z AUG 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 8454
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

UNCLAS OTTAWA 04165

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC DEVELOPMENTS WEEK ENDING AUGUST 18.

REFS: A. OTTAWA 4095 B. OTTAWA 3857

1. SUMMARY. GOC HAS ANNOUNCED FIRST DETAILS OF CDOLS 2 BILLION EXPENDITURE CUT PROMISED BY PM TRUDEAU IN AUGUST 1 SPEECH. THE WHOLESALE PRICE INDEX ACCELERATED IN JUNE. CONTINUED STEADY GROWTH OF CONSUMER CREDIT IN JUNE IS FURTHER EVIDENCE THAT CONSUMPTION SPENDING IS HOLDING UP. INDEX OF INDUSTRIAL PRODUCTION ROSE IN JUNE. SHORT TERM INTEREST RATES WERE UP IN WEEK. DOLLAR DECLINED SOMEWHAT. END SUMMARY.

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2. ON AUGUST 16, GOC ANNOUNCED FIRST DETAILS OF CDOLS 2 BILLION EXPENDITURE CUT (SEE REF A) PROMISED BY PM TRUDEAU IN AUGUST 1 SPEECH (SEE REF B). PLANNED REDUCTIONS ANNOUNCED THUS FAR TOTAL CDOLS 1.5 BILLION AND ARE IN ADDITION TO CUTS OF CDOLS 965 MILLION ALREADY ACHIEVED SINCE APRIL. ADDITIONAL SPENDING CUTS AMOUNTING TO APPROXIMATELY CDOLS

1 BILLION AS WELL AS STIMULATORY MEASURES TO BE ANNOUNCED
SOON.

3. ECONOMIC INDICATORS:

-- WHOLESALE PRICE INDEX ROSE TO 604.0 (1935-1938 100)
IN JUNE, UP BY 0.6 PERCENT FROM MAY, AND BY 8 PERCENT FROM
JUNE, 1977. JUNE RISE LARGEST TWELVE MONTH INCREASE IN
INDEX SINCE FEBRUARY, WHEN WHOLESALE PRICES WERE UP 8.5
PERCENT. SECTORS HAVING THE LARGEST EFFECT WERE WOOD,
IRON PRODUCTS AND NON-FERROUS METALS.

-- CONSUMER CREDIT OUTSTANDING STOOD AT CDOLS 26.49 BIL-
LION (NSA) IN JUNE, UP 12.9 PERCENT FROM LEVEL OF JUNE,
1977. CONTINUATION IN JUNE OF STEADY GROWTH OF CONSUMER
CREDIT IS FURTHER EVIDENCE (RETAIL AND DEPARTMENT STORE
SALES HAVE ALSO BEEN STRONG) THAT CONSUMPTION SPENDING
HELD UP WELL IN SECOND QUARTER.

-- INDEX OF INDUSTRIAL PRODUCTION (SA) INCREASED 0.5
PERCENT TO 129.8 (1971-100) IN JUNE. MINING AND UTILITIES
INCREASED, WHILE MANUFACTURING OUTPUT DECLINED DURING THE
MONTH.

4. CAPITAL MARKETS: SHORT TERM INTEREST RATES ROSE IN
WEEK. INTEREST RATE ON CANADIAN 90-DAY TREASURY BILLS
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WAS 8.80, COMPARED WITH 8.74 PREVIOUS WEEK. MONEY MARKET
RATES ROSE EARLY IN WEEK, BUT EASED OFF SOMEWHAT AS BANK
OF CANADA (BOC) ACTED TO INCREASE LIQUIDITY THROUGH OPEN
MARKET PURCHASES OF TREASURY BILLS.

5. EXCHANGE RATE: CANADIAN DOLLAR EXCHANGE RATE DECLINED
DURING WEEK. AVERAGE CLOSE WAS 87.81 U.S. CENTS COMPARED
WITH 88.04 U.S. CENTS PREVIOUS WEEK. INCREASE IN U.S.
DISCOUNT RATE CAUSED CANADA/U.S. INTEREST DIFFERENTIAL ON
3 MONTH TREASURY BILLS TO NARROW BY 34 BASIS POINTS TO 160
BASIS POINTS. HOWEVER, INCREASED DIFFERENTIAL HAD MINIMAL
EFFECT ON DOLLAR, IN PART DUE TO EXPECTATION BY MARKET
THAT BOC WOULD RAISE BANK RATE IN RESPONSE TO U.S. MOVE.
PLACKE

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